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WHA/EPSC FOR FCORNIELLE; EEB/ESC FOR MCMANUS; DOE FOR
LEINSTEIN AND GWARD; COMMERCE FOR JANGLIN

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TAGS: EPET ENRG ECON EINV PGOV CO
SUBJECT: GOC TO TAKE LARGER SHARE OF HIGH OIL REVENUES

REF: A. BOGOTA 570
¶B. BOGOTA 3017

¶1. (SBU) SUMMARY: Amid sustained high oil prices and rising production (ref A), the GOC plans to increase its take in new hydrocarbon contracts from 30 percent up to a maximum 50 percent. GOC officials have told us that they will not retroactively implement the proposed changes to existing contracts, but only apply them to future contracts. They acknowledge that the move could tarnish Colombia's investment climate in the energy sector, but confide that the GOC is under political and fiscal pressure to raise revenues from record high energy prices. The GOC has consulted with private industry representatives, who have said they are comfortable with the changes as currently envisioned. END SUMMARY.

## The Plan

¶2. (SBU) The GOC has not officially announced its proposal, but in a August 8 meeting with Energy Deputy Secretary Jeffrey Kupfer (ref B), Minister of Mines and Energy Hernan Martinez said the plan calls for the GOC to increase its 30 percent take per barrel by five percent for sale prices above USD 90. The GOC's share would then jump an additional five percent for every $30 price increase thereafter (i.e., 35% from $90-$120; 40% from $120-150; etc.) The plan would cap the maximum royalty at 50%. Martinez emphasized that the new scheme will apply only to new contracts, with contract terms for existing contracts remaining unchanged.

## Private Sector Input

¶3. (SBU) Colombian Petroleum Association Alejandro Martinez told us that the private sector could accept the changes along as they were transparent, applied uniformly, and with no retroactive application. He confirmed that Minister Martinez and National Hydrocarbons Agency Director Armando Zamora had consulted with oil and gas producers about the plan and incorporated modifications in response to industry concerns. For example, he said that while the trigger price for implementing the increased GOC take originally began at USD 60 per barrel, the GOC had raised the trigger to USD 90 after industry pointed out that such a low threshold would likely make investment in many new development prospects financially non-viable.

## Investment Climate Impact

¶4. (SBU) Chevron Colombia President David Bantz told us that his company and others operating in Colombia recognized the political and fiscal pressure that the GOC was under to reap

a larger share of record oil and gas prices. Bantz noted that international hydrocarbons companies were facing similar contract changes in many other countries around the world, but that significant investment problems had arisen only where the changes were applied arbitrarily or retroactively. He emphasized that the key to preserving Colombia's positive investment climate and continuing to attract the investment Colombia need to preserve its oil exporter status over the long run was to protect existing contracts and apply the new contract model transparently. Bantz expressed confidence that under the currently envisioned terms, most projected exploration and development projects would remain sufficiently profitable to attract foreign direct investment.
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